

Auditing Procedures Report V1.04

Reset Form

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Issued under Public Act 2 of 1968, as amended .

Unit Name	HOUGHTON TOWNSHIP	County	KEWEENAW	Type	TOWNSHIP	MuniCode	42-1-040
Opinion Date-Use Calendar	Aug 8, 2008	Audit Submitted-Use Calendar	Aug 22, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <u>NA</u>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 53,169.00
General Fund Expenditure:	\$ 46,256.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 77,868.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	JACKIE	Last Name	AALTO	Ten Digit License Number			1101022394
CPA Street Address	200 FIFTH ST., STE. 104	City	CALUMET	State	MI	Zip Code	49913
CPA Firm Name	JACKIE A. AALTO, CPA	Unit's Street Address	5059 4TH STREET	City	EAGLE RIVER	LU Zip	49950

HOUGHTON TOWNSHIP, MICHIGAN
Keweenaw County

FINANCIAL REPORT

Year ended March 31, 2008

HOUGHTON TOWNSHIP, MICHIGAN
FINANCIAL REPORT
Year ended March 31, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board Members
Houghton Township, Michigan

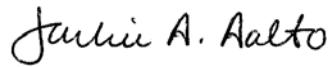
I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Houghton Township, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houghton Township, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Houghton Township, Michigan, as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on page 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it. Houghton Township has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houghton Township, Michigan's basic financial statements. The accompanying other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

August 8, 2008

HOUGHTON TOWNSHIP, MICHIGAN

Statement of Net Assets

March 31, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 38,320	\$ 1,152	\$ 39,472
Investments	24,489		24,489
Receivables, net	6,377	4,033	10,410
Internal balances	21,000	(21,000)	
Capital assets not being depreciated	30,480		30,480
Capital assets, net of accumulated depreciation	<u>8,490</u>	<u>33,467</u>	<u>41,957</u>
Total Assets	<u>129,156</u>	<u>17,652</u>	<u>146,808</u>
Liabilities			
Accounts payable & other current liabilities	<u>2,389</u>	<u>593</u>	<u>2,982</u>
Net Assets			
Invested in capital assets, net of related debt	38,970	12,467	51,437
Unrestricted	<u>87,797</u>	<u>4,592</u>	<u>92,389</u>
Total Net Assets	<u>\$ 126,767</u>	<u>\$ 17,059</u>	<u>\$ 143,826</u>

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

Statement of Activities

Year ended March 31, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for	Operating	Capital	Primary Government		
		Services	Grants and	Grants and	Governmental	Business-type	Total
			Contributions	Contributions	Activities	Activities	
Primary Government							
Governmental Activities:							
General government	\$ 34,575	\$ 200	\$ 2,701	\$	\$ (31,674)	\$	\$ (31,674)
Public safety	2,786		1,293		(1,493)		(1,493)
Public works	8,702		901		(7,801)		(7,801)
Recreation & culture	1,825				(1,825)		(1,825)
Cemetery	<u>1,504</u>	<u>1,500</u>			<u>(4)</u>		<u>(4)</u>
Total Governmental Activities	49,392	1,700	4,895		(42,797)		(42,797)
Business-type Activities:							
Water	<u>11,130</u>	<u>12,567</u>				<u>1,437</u>	<u>1,437</u>
Total Primary Government	<u>\$ 60,522</u>	<u>\$ 14,267</u>	<u>\$ 4,895</u>	<u>\$</u>	<u>(42,797)</u>	<u>1,437</u>	<u>(41,360)</u>
General Revenues:							
Property taxes					40,672		40,672
State-shared revenues					8,479		8,479
Unrestricted investment earnings					<u>1,423</u>	<u>64</u>	<u>1,487</u>
Total General Revenues					<u>50,574</u>	<u>64</u>	<u>50,638</u>
Change in Net Assets					7,777	1,501	9,278
Net Assets – Beginning					<u>118,990</u>	<u>15,558</u>	<u>134,548</u>
Net Assets – Ending					<u>\$ 126,767</u>	<u>\$ 17,059</u>	<u>\$ 143,826</u>

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

**Balance Sheet
Governmental Funds**

March 31, 2008

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 32,905	\$ 5,415	\$ 38,320
Investments	24,489		24,489
Receivables (net):			
Current tax levy	2,083		2,083
Delinquent taxes	2,472		2,472
Interest	490		490
Advance to other fund	21,000		21,000
Due from other governmental units	<u>1,332</u>		<u>1,332</u>
Total Assets	<u>\$ 84,771</u>	<u>\$ 5,415</u>	<u>\$ 90,186</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 892	\$	\$ 892
Accrued liabilities	1,497		1,497
Deferred taxes	<u>4,514</u>		<u>4,514</u>
Total Liabilities	<u>6,903</u>		<u>6,903</u>
Fund Balances			
Reserved for:			
Advance	21,000		21,000
Capital improvements	1,100		1,100
Unreserved, undesignated reported in:			
General fund	55,768		55,768
Special revenue funds	<u>5,415</u>	<u>5,415</u>	<u>5,415</u>
Total Fund Balances	<u>77,868</u>	<u>5,415</u>	83,283
Total Liabilities and Fund Balances	<u>\$ 84,771</u>	<u>\$ 5,415</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	38,970
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>4,514</u>

Net assets of governmental activities	<u>\$ 126,767</u>
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The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

Year ended March 31, 2008

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 39,524	\$	\$ 39,524
Intergovernmental – state	9,380	1,293	10,673
Charges for services		1,500	1,500
Interest & rents	1,564	59	1,623
Other revenue	<u>2,701</u>	<u></u>	<u>2,701</u>
Total Revenues	<u>53,169</u>	<u>2,852</u>	<u>56,021</u>
Expenditures			
Current			
General government	28,764		28,764
Public safety	1,000	1,786	2,786
Public works	8,511		8,511
Recreation & culture	1,825		1,825
Cemetery		1,504	1,504
Other	5,081		5,081
Capital outlay	<u>1,075</u>	<u></u>	<u>1,075</u>
Total Expenditures	<u>46,256</u>	<u>3,290</u>	<u>49,546</u>
Net Change in Fund Balances	6,913	(438)	6,475
Fund Balances – Beginning	<u>70,955</u>	<u>5,853</u>	
Fund Balances – Ending	<u>\$ 77,868</u>	<u>\$ 5,415</u>	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

154

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

1,148

Change in Net Assets of Governmental Activities

\$ 7,777

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

Statement of Net Assets Proprietary Fund

March 31, 2008

	Business-type Activities Enterprise Fund Water
Assets	
Current Assets:	
Cash	\$ 1,152
Accounts receivable, net	<u>4,033</u>
Total Current Assets	5,185
Noncurrent Assets:	
Capital asset, net	<u>33,467</u>
Total Assets	<u>38,652</u>
Liabilities	
Current Liabilities:	
Accounts payable	226
Accrued liabilities	<u>367</u>
Total Current Liabilities	593
Noncurrent Liabilities:	
Advance from other fund	<u>21,000</u>
Total Liabilities	<u>21,593</u>
Net Assets	
Invested in capital assets, net of related debt	12,467
Unrestricted	<u>4,592</u>
Total Net Assets	<u>\$ 17,059</u>

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

Statement of Revenues, Expenses and Changes in Net Assets Proprietary Fund

Year ended March 31, 2008

	Business-type Activities Enterprise Fund Water
Operating Revenues	
Charges for services	\$ 12,567
Operating Expenses	
Wages & payroll taxes	5,098
Utilities	2,746
Supplies & maintenance	1,972
Miscellaneous	592
Depreciation	722
Total Operating Expenses	11,130
Operating Income	1,437
Nonoperating Revenues	
Interest income	64
Change in Net Assets	1,501
Total Net Assets – Beginning	15,558
Total Net Assets – Ending	\$ 17,059

The notes to the financial statements are an integral part of this financial statement.

HOUGHTON TOWNSHIP, MICHIGAN

**Statement of Cash Flows
Proprietary Fund**

Year ended March 31, 2008

	Business-type Activities Enterprise Fund Water
Cash Flows from Operating Activities	
Receipts from customers	\$ 10,578
Payments to suppliers	(5,279)
Payments to employees	<u>(4,731)</u>
Net cash provided by operating activities	<u>568</u>
Cash Flows from Capital and Related Financing Activities	
Advances from other fund	21,000
Purchase of capital assets	<u>(25,796)</u>
Net cash used by capital and related financing activities	<u>(4,796)</u>
Cash Flows from Investing Activities	
Interest	<u>64</u>
Net decrease in cash	(4,164)
Cash – Beginning	<u>5,316</u>
Cash – Ending	<u><u>\$ 1,152</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,437
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	722
Increase in receivables	(1,989)
Increase in accounts payable	31
Increase in accrued liabilities	<u>367</u>
Net cash provided by operating activities	<u><u>\$ 568</u></u>

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

**Statement of Net Assets
Fiduciary Fund**

March 31, 2008

	<u>Agency Fund</u>
Assets	
Cash	<u>\$ 30,822</u>
Liabilities	
Due to other governmental units	<u>\$ 30,822</u>

The notes to the financial statements are an integral part of this statement.

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

I. Summary of Significant Accounting Policies

A. Reporting Entity

Houghton Township was organized as a General Law Township and is located in Keweenaw County, Michigan. It covers an area of approximately 36 square miles. The Township is governed by an elected Board of Trustees consisting of five members, which are a supervisor, clerk, treasurer and two trustees. It also has one appointed constable. Services provided to the residents of the Township include fire protection, a water supply system, recreation and community enrichment.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended, contains the standards for defining the governmental financial reporting entity and for identifying which legally separate entities are component units that should be included with another government (usually a primary government) in the financial reporting entity's financial statements. Requirements for including component units are based primarily on the concept of financial accountability. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Township has no component units.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, when applicable, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township reports the following major proprietary funds:

The *Water Fund* accounts for the activity of the Township's water system.

Additionally, the Township reports the following nonmajor governmental funds: Cemetery and Liquor.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Township has elected to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Township's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund includes cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Township did not have any short-term investments at March 31, 2008.

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds"

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

(i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans.) All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts, when applicable. Property taxes are levied on December 1st and are payable by February 14 of each year, at which time all unpaid taxes become delinquent. Delinquent real property taxes are collected by the County. Delinquent personal property taxes continue to be collected by the Township.

It is the Township’s policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for the financing of operations.

The 2007 taxable valuation of the Township totaled \$7,667,830, of which ad valorem taxes levied consisted of 1.1707 mills for operating purposes, and 2.8500 mills in extra voted millage. This resulted in \$8,977 for operating and \$21,853 for extra voted. These amounts are recognized in the General Fund financial statements as taxes receivable – current or as tax revenue.

3. Capital Assets

Capital assets, which include property, plant, equipment, and the water system, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. As the government constructs or acquires additional capital assets each period they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the Township values these capital assets at the estimated fair value of the item at the date of its donation.

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was capitalized as part of the cost of assets under construction.

Property, plant, equipment and the water system are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 to 50 years
Site Improvements	10 to 20 years
Water System	40 to 60 years
Equipment & Furnishings	7 to 15 years

4. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the activity level. Encumbrance accounting is not employed in the governmental funds.

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

III. Detailed Notes on All Funds

A. Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township has designated one bank for the deposit of Township funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997. The Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the Township's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash	\$ 38,320	\$ 1,152	\$ 39,472
Investments – Certificates of deposit	<u>24,489</u>	<u> </u>	<u>24,489</u>
Total	<u>\$ 62,809</u>	<u>\$ 1,152</u>	<u>\$ 63,961</u>

The bank balance of the primary government's deposits is \$63,984, all of which is covered by federal depository insurance.

B. Capital Assets

Capital asset activity for the year ended March 31, 2008 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated:				
Land	<u>\$ 30,480</u>	<u>\$ </u>	<u>\$ </u>	<u>\$ 30,480</u>

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Buildings & site improvements	10,000			10,000
Equipment & furnishings	<u>6,654</u>	<u>1,075</u>		<u>7,729</u>
Subtotal	<u>16,654</u>	<u>1,075</u>		<u>17,729</u>
Accumulated depreciation:				
Building & site improvements	(6,235)	(148)		(6,383)
Equipment & furnishings	<u>(2,083)</u>	<u>(773)</u>		<u>(2,856)</u>
Subtotal	<u>(8,318)</u>	<u>(921)</u>		<u>(9,239)</u>
Net capital assets being depreciated	<u>8,336</u>	<u>154</u>		<u>8,490</u>
Governmental activities net capital assets	<u>\$ 38,816</u>	<u>\$ 154</u>	<u>\$</u>	<u>\$ 38,970</u>
Business-type activities				
Capital assets being depreciated:				
Building & site improvements	40,000			40,000
Water system	<u>44,578</u>	<u>25,796</u>		<u>70,374</u>
Subtotal	<u>84,578</u>	<u>25,796</u>		<u>110,374</u>
Accumulated depreciation:				
Building & site improvements	(33,127)	(212)		(33,339)
Water system	<u>(43,058)</u>	<u>(510)</u>		<u>(43,568)</u>
Subtotal	<u>(76,185)</u>	<u>(722)</u>		<u>(76,907)</u>
Business-type activities net capital assets	<u>\$ 8,393</u>	<u>\$ 25,074</u>	<u>\$</u>	<u>\$ 33,467</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 730
Public works	<u>191</u>
Total depreciation expense – governmental activities	<u>\$ 921</u>
Business-type activities	
Water	<u>\$ 722</u>

HOUGHTON TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2008

C. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of March 31, 2008 is as follows:

Advances From/To Other Funds		
General	Water	<u>\$ 21,000</u>

The outstanding advance between funds is the result of an advance from the General Fund to the Water Fund for improvements to the water system.

IV. Other Information

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and employee injuries (workers' compensation). All risk of loss is covered by commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Required Supplementary Information

HOUGHTON TOWNSHIP, MICHIGAN

Budgetary Comparison Schedule General Fund Year ended March 31, 2008

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
Beginning Budgetary Fund Balance	\$ 70,955	\$ 70,955	\$ 70,955
Resources (Inflows):			
Taxes	36,900	36,900	39,524
Intergovernmental – state	9,820	9,820	9,380
Interest & rents	700	700	1,564
Other revenue	<u>1,000</u>	<u>1,000</u>	<u>2,701</u>
Amounts Available for Appropriation	<u>119,375</u>	<u>119,375</u>	<u>124,124</u>
Charges to Appropriations (Outflows):			
General government	35,980	41,980	28,764
Public safety	2,500	2,500	1,000
Public works	13,200	13,200	8,511
Recreation & culture	3,000	3,000	1,825
Other	5,300	7,400	5,081
Capital outlay	<u> </u>	<u>1,200</u>	<u>1,075</u>
Total Charges to Appropriations	<u>59,980</u>	<u>69,280</u>	<u>46,256</u>
Ending Budgetary Fund Balance	<u>\$ 59,395</u>	<u>\$ 50,095</u>	<u>\$ 77,868</u>

Other Supplementary Information

HOUGHTON TOWNSHIP, MICHIGAN

Combining Balance Sheet Nonmajor Governmental Funds March 31, 2008

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Cemetery</u>	<u>Liquor</u>	
Assets			
Cash	<u>\$ 4,202</u>	<u>\$ 1,213</u>	<u>\$ 5,415</u>
Liabilities and Fund Balance			
Liabilities	\$	\$	\$
Fund Balances			
Unreserved	<u>4,202</u>	<u>1,213</u>	<u>5,415</u>
Total Liabilities and Fund Balances	<u>\$ 4,202</u>	<u>\$ 1,213</u>	<u>\$ 5,415</u>

HOUGHTON TOWNSHIP, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds Year ended March 31, 2008

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Cemetery</u>	<u>Liquor</u>	
Revenues			
Intergovernmental – state	\$	\$ 1,293	\$ 1,293
Charges for services	1,500		1,500
Interest	<u>59</u>	<u></u>	<u>59</u>
Total Revenues	<u>1,559</u>	<u>1,293</u>	<u>2,852</u>
Expenditures			
Current:			
Public safety		1,786	1,786
Cemetery	<u>1,504</u>	<u></u>	<u>1,504</u>
Total Expenditures	<u>1,504</u>	<u>1,786</u>	<u>3,290</u>
Net Change in Fund Balances	55	(493)	(438)
Fund Balances – Beginning	<u>4,147</u>	<u>1,706</u>	<u>5,853</u>
Fund Balances – Ending	<u>\$ 4,202</u>	<u>\$ 1,213</u>	<u>\$ 5,415</u>

To the Board Members
Houghton Township, Michigan

In planning and performing my audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Houghton Township, Michigan as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, I considered Houghton Township, Michigan's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, I do not express an opinion on the effectiveness of the Township's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control that I consider to be significant deficiencies and one deficiency that I consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the following deficiencies to be significant deficiencies in internal control.

1. The Township does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenues and expenditures, to track changes in capital assets, and to present required financial statement disclosures. Due principally to the small size of the Township and the limited funds available to the Township, the hiring of accounting personnel capable of writing the Township's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.
2. Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel. As noted above, due to the small size of the Township and the limited funds of the Township, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Township's assets. To the extent possible, duties should be allocated between accounting personnel to mitigate risk of material misappropriation of assets. I recommend that the Township Board assume a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. I believe that item number 1 above constitutes a material weakness.

Certain other matters related to operational or administrative efficiencies and improvements to internal controls are following.

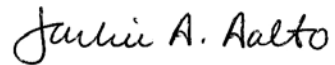
3. Currently, the Township does not annually authorize check signers. A current listing of authorized check signers, which is approved annually by the Township Board, should be maintained to ensure proper authorization of all disbursements. I recommend the listing be periodically reviewed and updated each time a change in check signers occurs and that the bank be promptly and formally notified of any change.
4. The Township Board does not annually authorize the use of specific financial institutions for its deposits. For purposes of risk management, I recommend the Township Board consider the number and location of financial institutions to be used by the Township with the goal of minimizing the risks associated with uninsured cash while maintaining the convenience of holding accounts in the local geographic area.
5. I recommend that the Township Board annually update all contracts.
6. Internal control is most effective when the bank reconciliations are prepared by someone who does not receive the bank statements directly and who is not responsible for entries in the receipts and disbursements records. I recommend that bank reconciliations be prepared by someone independent of the entering of the receipts and disbursements.
7. Checks submitted to the treasurer for signature should in every case be accompanied by the supporting invoices which should be initialed to reflect final approval for payment, and to prevent reuse of the invoices. I recommend that a stamp imprint, providing for check number, date paid, account charged, approval of prices, receipt of goods or services, approval of footings and extensions, and final approval for payment by the check signer, be impressed on each supporting invoice prior to payment. Final approval for payment should be dependent on proper preliminary approvals as indicated.

In the case of expenditures not likely to be supported by formal invoice, I recommend that preprinted "check request" forms be made available that will provide for date, payee, check number, description of expenditure and approval signature. These would serve as the supporting document accompanying checks to be signed.

8. Blank checks are being stored in unsecured locations. I recommend that blank checks be kept in a locked box or cabinet accessible only to those with proper authorization and that the checks periodically be accounted for.
9. I recommend that computer files be backed up at least weekly, be properly labeled and be stored off premises in a fireproof vault to ensure safe storage of computer information.
10. I recommend that the Township Board adopt a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll.

This communication is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and if applicable, pass-through entities, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to thank the Township personnel for their courtesy and assistance during the audit. I appreciate the opportunity to serve as your auditor. If there are any questions about your financial report or the above comments and recommendations, I would be happy to discuss them at your convenience.

A handwritten signature in cursive script that reads "Jackie A. Aalto".

Jackie A. Aalto, CPA

Calumet, Michigan

August 8, 2008